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RJR

Annual Report 1969

R. J. Reynolds Tobacco Company

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Comparative Summary

Consolidated

	1969	1968 (Note A)
Net sales and operating revenues	$2,252,694,525	$2,188,870,601
Net earnings	172,304,874	168,929,934
Per common share	3.82	3.71
Per common share—assuming full dilution	3.57	3.48
Net earnings as a percentage of net sales and operating revenues	7.65%	7.72%
Dividends paid on Preferred Stocks	$ 11,538,144	$ 1,352,995
Dividends paid on Common Stock	90,530,052	88,518,214
Per share of Common Stock	2.25	2.20
Average number of shares outstanding	40,235,578	40,235,552
Average number of shares outstanding—assuming full conversion	48,123,711	48,184,929
Capital expenditures	$ 197,902,993	$ 67,079,559
Depreciation and amortization	45,368,732	41,312,224
Total assets	$1,693,373,221	$1,476,562,415
Current assets	921,488,045	957,483,787
Current liabilities	298,606,718	273,728,055
Net current assets—working capital	622,881,327	683,755,732
Property, plant and equipment—net	524,876,122	381,412,509
Long-term debt (less current maturities)	274,031,238	112,502,332
Book value of Preferred Stock	85,773,542	105,657,451
Book value of Common Stock	992,950,580	918,593,624
Number of RJR stockholders at year end	136,539	136,129
Number of regular employees at year end	26,062	21,332

See Notes to Consolidated Financial Statements.

To the Stockholders:

The year 1969 was one in which the Company charted new directions for growth and established records for sales, revenues, and earnings.

With the merger of McLean Industries, Inc. into R. J. Reynolds, the Company entered a new and growing field — containerized freight transportation — further broadening and diversifying its operations.

This report accordingly reflects for the first time on a consolidated and comparative basis the operating results of McLean, as explained in detail in the financial review of the year which follows this letter. With the inclusion of these figures, the Company's sales and operating revenues have passed the $2 billion mark.

Because of the Company's growing diversification, this report also shows for the first time the respective contributions to sales and earnings from operations of its principal operating components: tobacco, transportation, and other sources (foods and beverages, aluminum and packaging, and corn refining operations). While tobacco sales accounted for 76% of the consolidated total in 1969, the non-tobacco operations represented an increasingly greater share of the Company's business, rising to 24%.

The Company continued to lead the tobacco industry in both domestic and export cigarette sales. Reynolds' share of the domestic cigarette market held almost unchanged, at about one-third.

Three of the Company's brands — WINSTON, SALEM, and CAMEL — again led all other brands in their respective categories. WINSTON, the nation's No. 1 seller, widened its lead over its nearest rival.

The fast-changing nature of the Company's business, resulting from substantial diversification and growth in non-tobacco areas, has made it desirable to realign the corporate structure. The first step was taken at the last annual meeting of stockholders when approval was given to a change of name to R. J. Reynolds Industries, Inc. Formal adoption of the new name, however, has been deferred to coincide with a reorganization plan to be submitted to the next annual meeting in April of this year. Under this plan, subject to approval by stockholders and certain other conditions, R. J. Reynolds Tobacco Company would become a wholly-owned subsidiary of a new corporation to be named R. J. Reynolds Industries, Inc. Stockholders of the present Company would become the stockholders of the new corporation.

In line with a decrease in domestic cigarette consumption, the Company's tobacco sales both in unit and dollar volume were slightly lower in 1969, as were earnings from tobacco operations. Transportation earnings were higher. Earnings from operations of the other businesses were lower in total than the previous year in spite of an increase in the contribution by Archer Products and a better showing by Penick & Ford.

While the progress made in diversification has been substantial, and we are confidently looking forward to further growth by each of the subsidiaries, tobacco continues to be — as it has been for ninety-five years — the foundation of our business. Because of it, the Company has been able to pay uninterrupted dividends to its stockholders for seventy years. Despite the unsubstantiated attacks against the industry in recent years, and despite the unfair tax burden that it bears, tobacco remains a good business.

The Company's research and development programs to improve existing products and develop new ones that can be profitably marketed continue to produce good results. For example, from the new Development Center, dedicated in October, 1968, have come more than 20 new or improved products for R. J. Reynolds Foods and three new cigarette brands (one of which, DORAL, is in national distribution and the others in test markets).

With profound sorrow we record the death of Mr. Bowman Gray on April 11, 1969. At the time of his death Mr. Gray was Chairman of the Board of Directors and he had previously served as President. As chief executive officer for many years, he had guided the Company during a period of great growth, and he had served as a forceful spokesman for the industry.

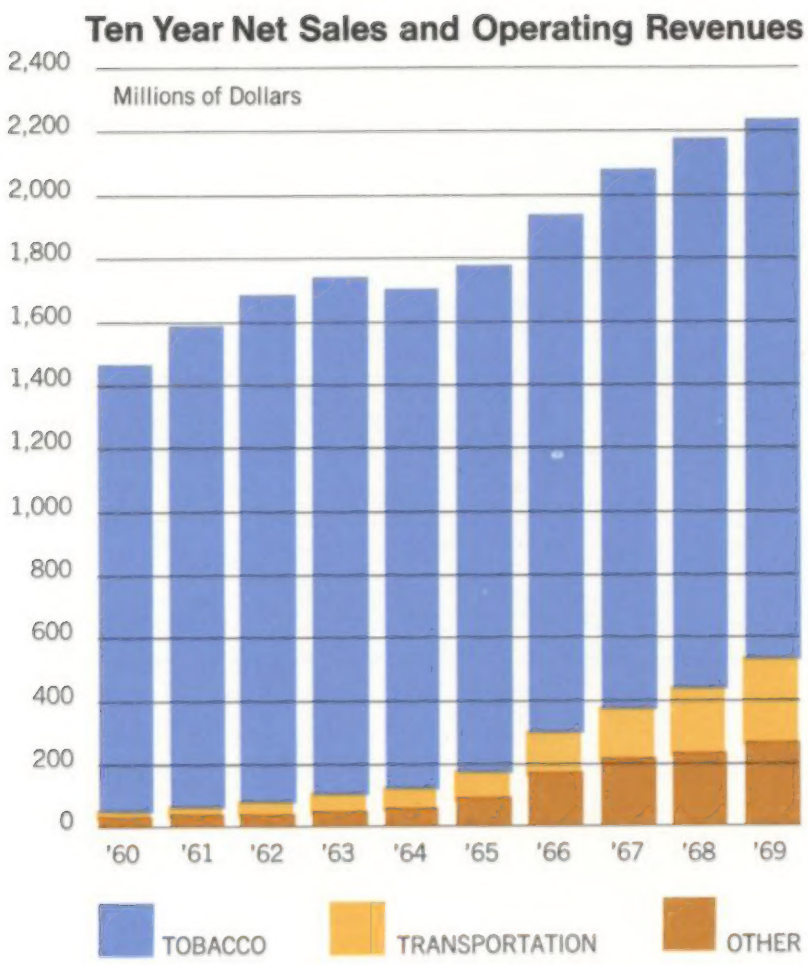
Among our greatest resources are the people, including the newer members of the R. J. Reynolds family, who have contributed to our growth in many areas. To them, as well as to our loyal stockholders, we express the appreciation of the directors and management and pledge our renewed efforts to maintain the Company's progress.

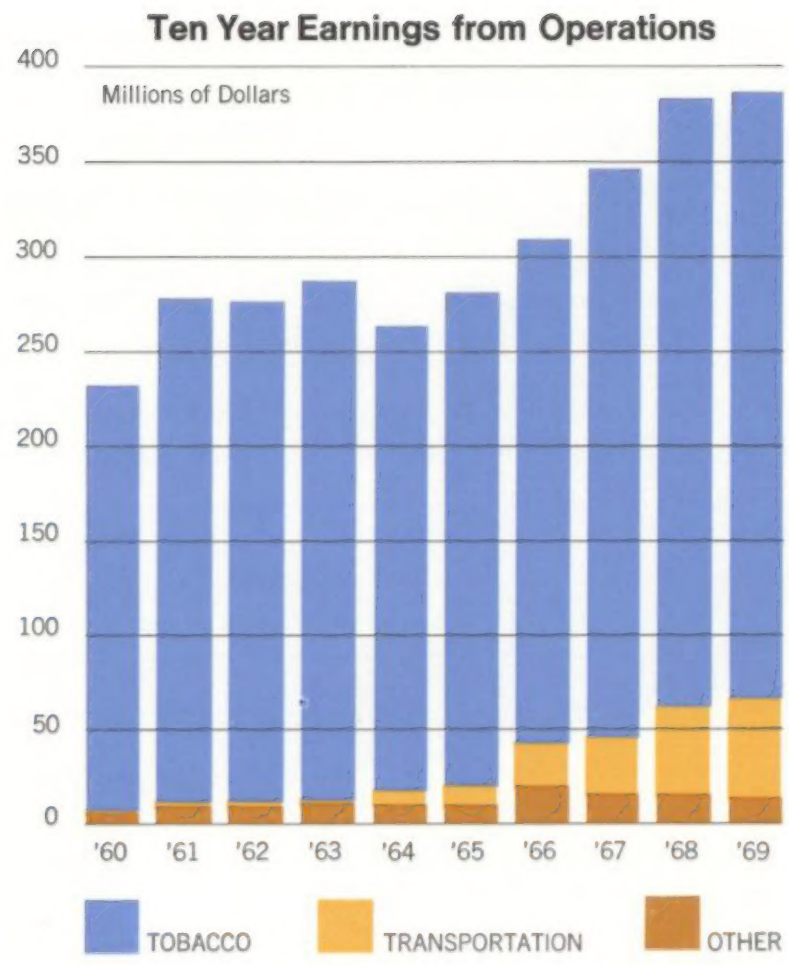
Respectfully submitted for the Board of Directors.

A. H. Galloway

Chairman/President

February 16, 1970





Financial Review

Net sales and operating revenues in 1969, the highest in the Company's history, totaled $2,252,694,525, an increase of $63,823,924 or 2.9% over 1968. Net earnings, also a record, were $172,304,874, a gain of $3,374,940 or 2% over the 1968 figure. Net earnings per share of Common Stock were $3.82 for 1969, compared with $3.71 the year before.

These amounts reflect the merger of McLean Industries, Inc. into the Company on May 13, 1969. Approximately 76% of McLean's Common Stock was exchanged for Reynolds $2.25 Convertible Preferred Stock and 24% was purchased for cash. Accordingly, McLean's results for the full year have been included on a pooling of interests basis, but net earnings have been reduced by an amount equal to 24% of McLean's net earnings prior to May 13, 1969.

Tobacco sales, which accounted for 76% of the consolidated total, declined $22,663,000 or 1.3% in 1969. (Tobacco sales included excise taxes of $677,606,584 in 1969 and $697,806,366 in 1968.) Transportation revenues in 1969 increased $53,951,000 or 23.8% over 1968, in spite of a longshoremen's strike which adversely affected 1969 operations. Additional container capacity and the first full year of containership service to Japan, which was inaugurated in December of 1968, accounted for the increase in 1969. Sales of other products, including food, aluminum sheet and foil, packaging, and industrial corn products, rose $32,536,000 or 14.2% in 1969.

The following tabulation sets forth an analysis of net sales and operating revenues for the year, with comparative figures for 1968:

	NET SALES AND OPERATING REVENUES			
	1969		1968	
	(000 Omitted)	%	(000 Omitted)	%
Tobacco	$1,709,914	75.9	$1,732,577	79.2
Transportation	280,334	12.4	226,383	10.3
Other	262,447	11.7	229,911	10.5
Consolidated	$2,252,695	100.0	$2,188,871	100.0

Earnings from operations, shown below for major operating components, represent earnings before interest and debt expense, the adjustment for earnings applicable to the McLean Common Stock purchased, and provision for income taxes.

	EARNINGS FROM OPERATIONS			
	1969		1968	
	(000 Omitted)	%	(000 Omitted)	%
Tobacco	$319,746	82.4	$320,850	83.4
Transportation	55,853	14.4	50,523	13.1
Other	12,551	3.2	13,345	3.5
Consolidated	$388,150	100.0	$384,718	100.0

Consolidated earnings from operations totaling $388,149,879 in 1969 were up $3,431,702 or 0.9% over the comparable 1968 amount of $384,718,177. Tobacco earnings from operations decreased slightly in 1969 to $319,746,000 from the 1968 amount of $320,850,000. Rising manufacturing costs, new brand introductions, and the effect on profits of a 3.8% decline in cigarette unit sales during 1969 were about offset by an industry-wide cigarette price increase effective in May, 1969.

Transportation earnings were up $5,330,000 or 10.5% over 1968. Earnings from other operations declined $794,000 in 1969, down 6% from 1968, resulting largely from heavier than normal marketing and promotional expenditures and introduction of new products by Reynolds Foods.

Dividends

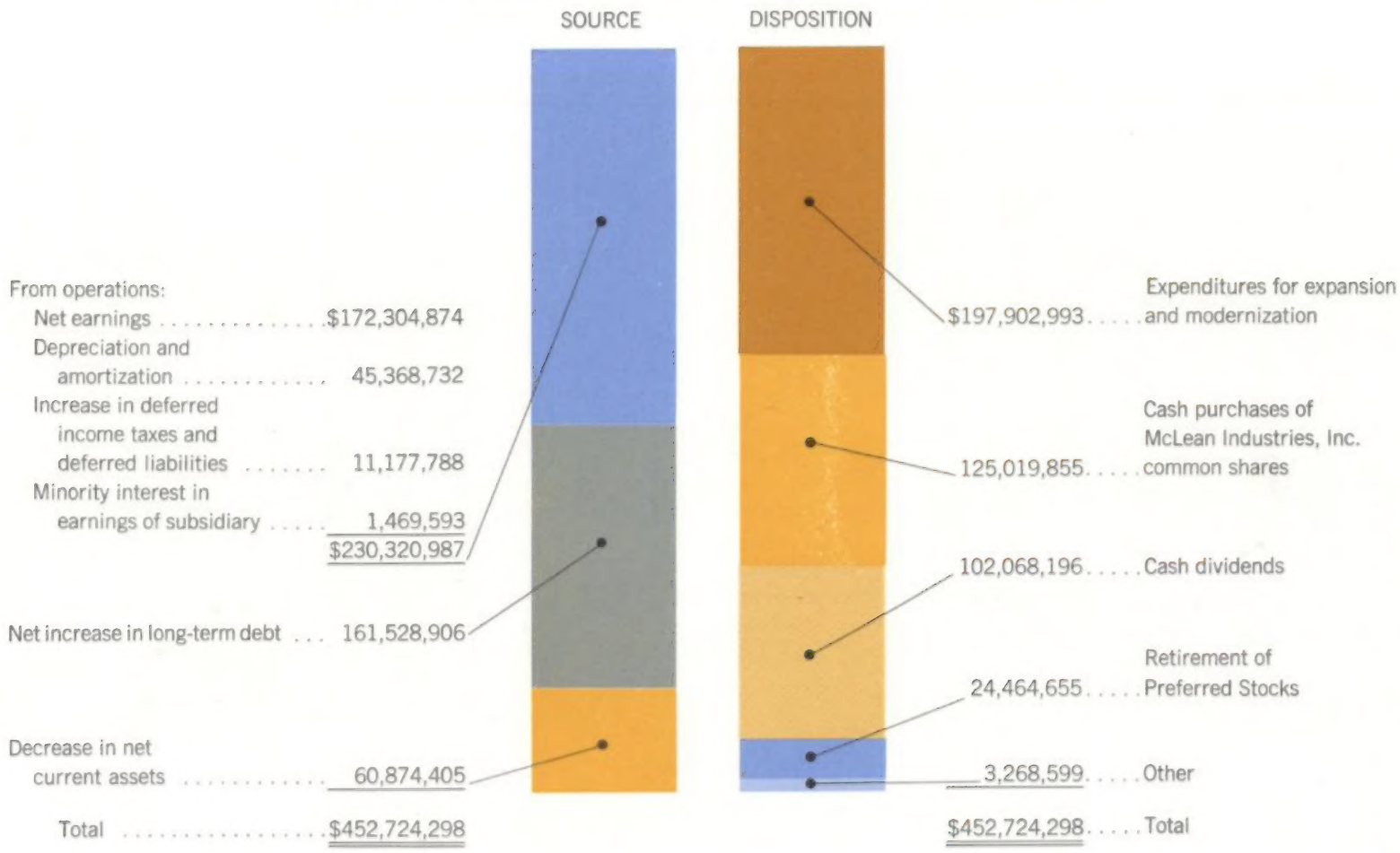
With an increase in the dividend rate in the final quarter, dividends on the Common Stock totaled $2.25 per share in 1969, marking the sixteenth consecutive year of increased dividend payments. Dividends paid during the year on the Common and Preferred Stocks aggregated $102,068,196, the highest for the Company's seventy consecutive years of dividend payments.

Debt Position

The merger with McLean Industries, Inc. in 1969 brought about significant changes in the Company's financial structure. The Preferred Stock, 3.60% Series, was converted into 7% Subordinated Debentures. Subsequently, $50,000,000 of 8⅛% Five Year Notes and $100,000,000 of 7⅞% Twenty-five Year Debentures were issued to provide funds for reductions in short-term debt, which had been increased by $125,020,000 to finance the purchase of approximately 24% of McLean's Common Stock.

During the year the Company arranged for loans from banks in the Federal Republic of Germany and The Netherlands aggregating 503,200,000 German Marks and 272,736,000 Dutch Florins

Source and Disposition of Corporate Funds for 1969



(totaling about $210,000,000 at present exchange rates) to finance 80% of the cost of eight super containerships to be constructed within the next four years in those countries.

Equipment obligations were increased by $32,569,941 to finance the purchase of containers and various equipment.

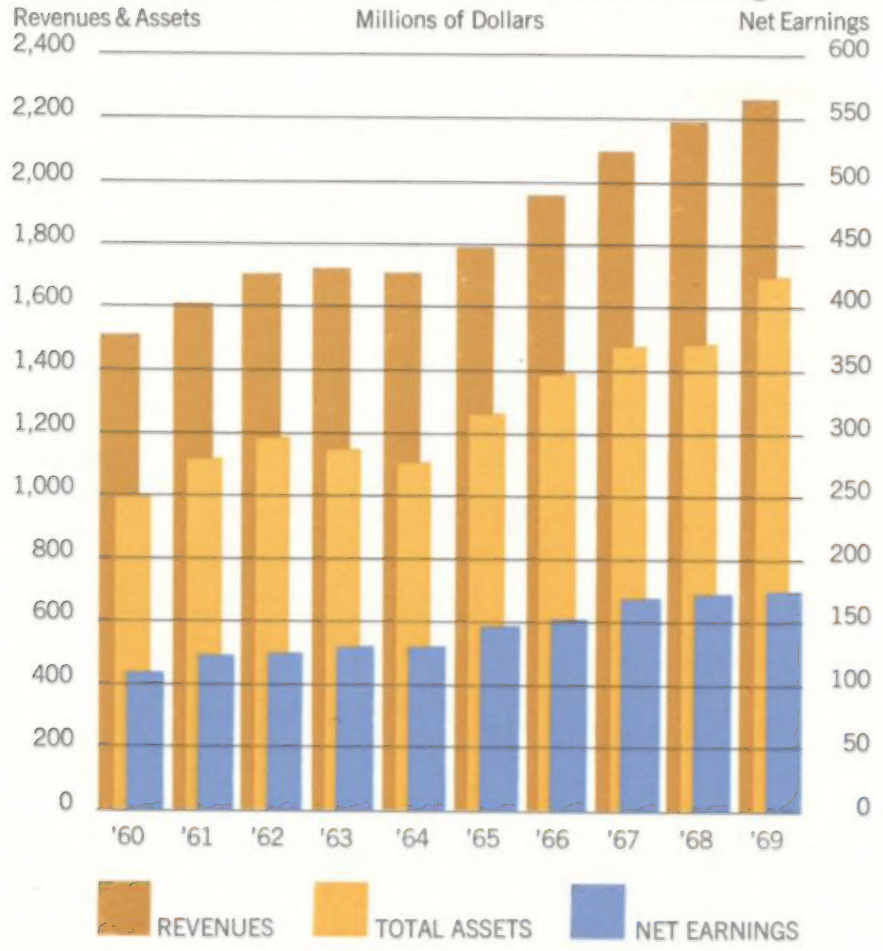
During 1969 payments of $37,788,097 were made on long-term debt, which at year end totaled $274,031,238. Short-term debt was $116,621,874 on December 31, 1969, or $9,121,874 higher than at year-end 1968. The Company was free of short-term debt for a short period in November.

Capital Expenditures

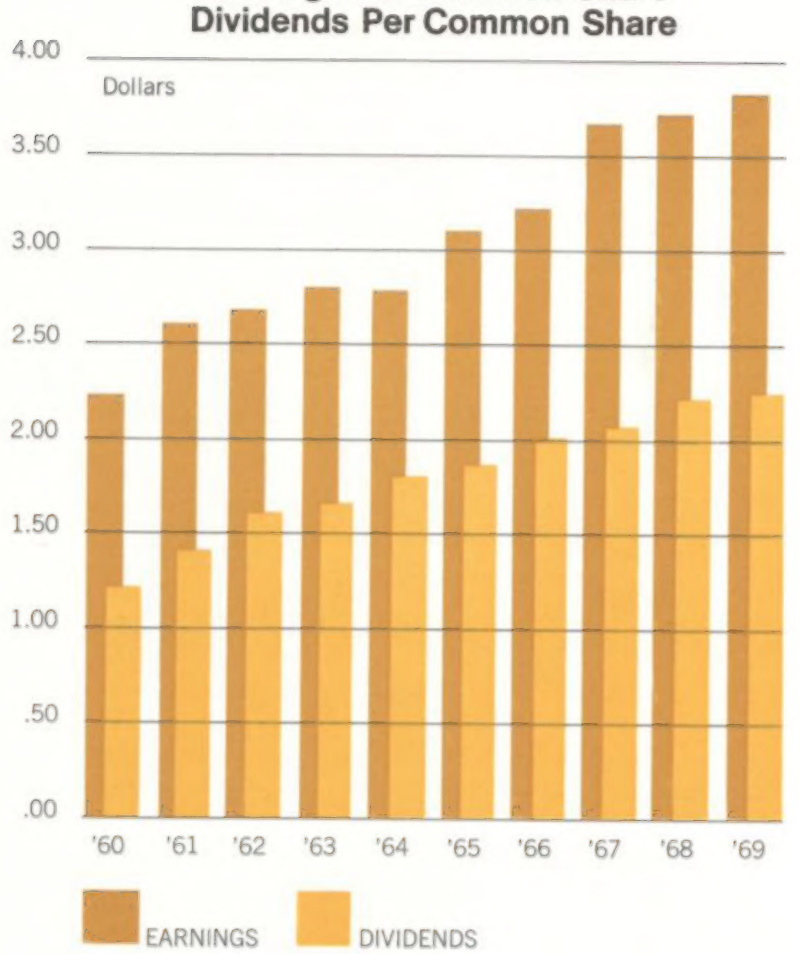
The Company made record capital outlays during 1969 of $197,902,993, an increase of $130,823,434 over the restated 1968 amount of $67,079,559. The major portion of the 1969 expenditures, $176,202,013, represented payments for the acquisition and conversion of vessels and purchase of associated equipment to expand Sea-Land's containerized fleet. During the year the Company began additions to improve leaf processing facilities at the Whitaker Park cigarette plant in Winston-Salem, and continued the modernization and expansion of food processing facilities. A small specialty plant of the Company's corn refining subsidiary was completed last year. Expenditures for non-tobacco facilities accounted for approximately 92% of the 1969 total, compared with 75% of the 1968 amount.

Capital expenditures for 1970 are currently estimated at $245,000,000 and include further expansion of the containership fleet, continued modernization of tobacco processing facilities, and expansion and modernization of aluminum sheet and foil, packaging, and food processing facilities. Construction of a new cigarette manufacturing plant in Puerto Rico, begun in late 1969, will be completed by the end of 1970. Approximately 93% of planned 1970 expenditures are for non-tobacco operations.

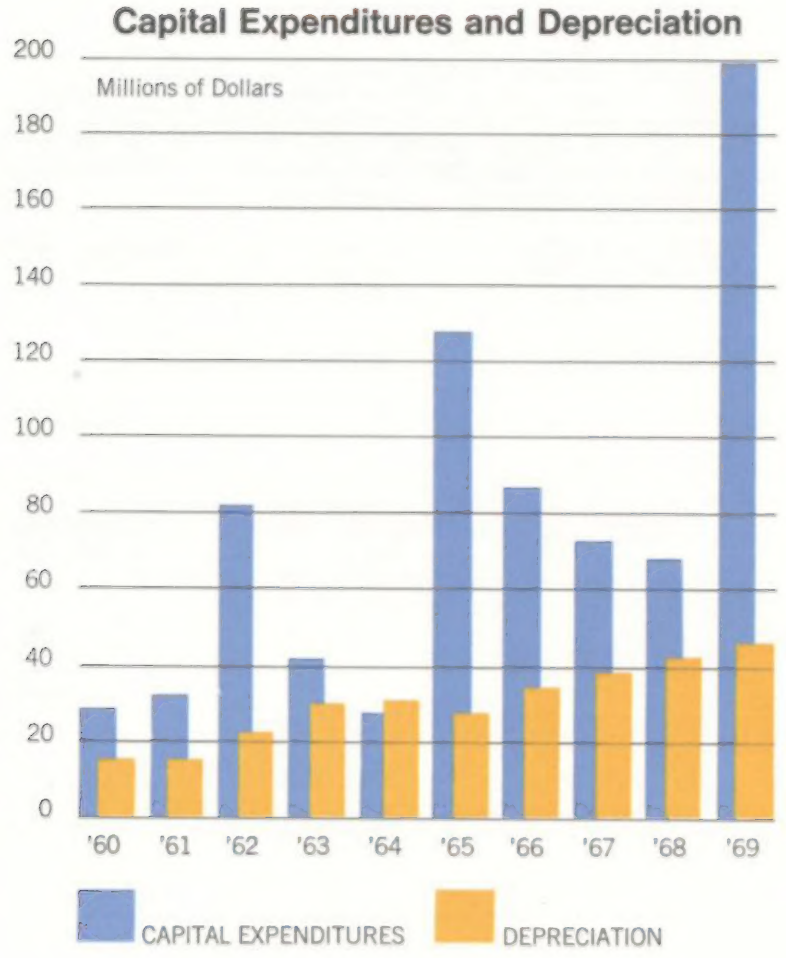
Revenues, Total Assets and Net Earnings



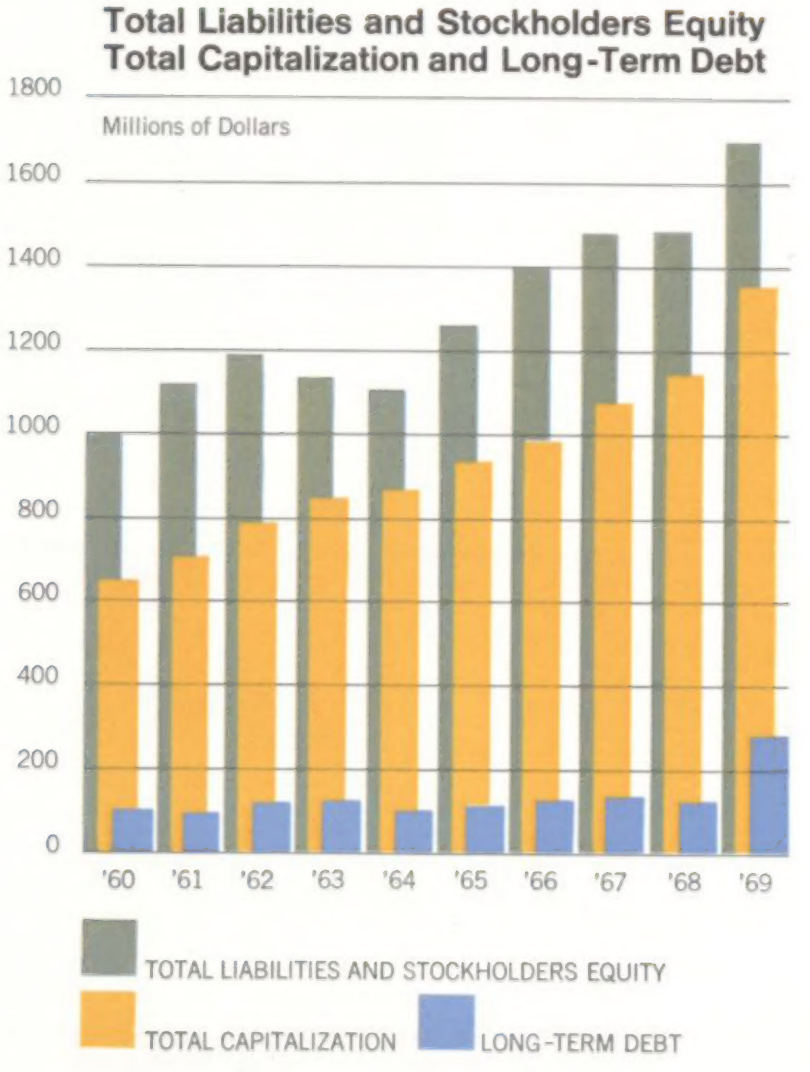
Earnings Per Common Share
Dividends Per Common Share



Capital Expenditures and Depreciation



Total Liabilities and Stockholders Equity
Total Capitalization and Long-Term Debt



Tobacco

The growth of the tobacco industry continues to be hampered by accelerating taxation and the campaigns of anti-smoking forces. Sharp increases in state taxes on cigarettes, coupled with the unremitting barrage of anti-smoking propaganda, appear to have caused an estimated 3.6% decrease in domestic per capita cigarette consumption last year. Eighteen states, plus the District of Columbia, increased their cigarette taxes and North Carolina imposed a tax for the first time. In the past five years, state cigarette taxes have doubled, increasing from an average of 5¢ to 10¢ per package. American consumers are now forced to pay more than $4.5 billion annually in taxes on cigarettes.

Congress is presently considering amendments to the 1965 Federal Cigarette Labeling and Advertising Act, including amendments to prohibit cigarette advertising on television and radio after December 31, 1970, and to require cigarette packages to bear a statement designed to be more cautionary than the present statement. The proposed legislation now before the Congress would also permit the Federal Trade Commission, subject to certain conditions, to revive its proposal that a warning statement be required in printed advertising of cigarettes. At the time of this writing, the form of the final legislation is still uncertain.

The report last spring of the House of Representatives' Committee on Interstate and Foreign Commerce, after thirteen days of hearings on the proposed legislation, included this statement: "On the basis of these hearings the committee concludes that nothing new has been determined with respect to the relationship between cigarette smoking and human health since its hearings in 1964 and 1965."

While the anti-smoking forces are giving the impression that a causal relationship has been established, the Company and others in our industry are continuing to support, through unrestricted grants to the Council for Tobacco Research — USA and the Committee for Research on Tobacco and Health of the American Medical Association, the scientific research that still must be done to learn the true facts about smoking and health. In the past fifteen years the tobacco industry has contributed more funds for tobacco and health research than have the Federal Government and the private health agencies combined.

In 1969 the Company announced the development of a new process to increase the filling capacity of tobacco. While this unique method of "puffing" tobacco will effect manufacturing economies, it will not significantly reduce leaf requirements in the foreseeable future.

In an effort to help tobacco farmers cope with critical labor shortages and harvest their crop at lower cost, the Company has developed and successfully field-tested a compact mechanical harvester. Further modifications and field tests are scheduled this year, and it is hoped that a production model can be provided by 1971. The Company will continue its own research and grants to others toward solving the cost problems of farmers in the growing of tobacco.

Foods and Beverages

R. J. Reynolds Foods had another year of excellent sales growth in 1969. Five brands continued in top position in their respective product categories: CHUN KING in Oriental Foods; PATIO in Mexican foods; HAWAIIAN PUNCH in fruit punches; COLLEGE INN in broth and boned chicken; and BRER RABBIT in molasses.

CHUN KING introduced a line of premium five-course dinners — one of the most successful new product introductions in the frozen food field. Other new offerings were four flavors of egg rolls, four entrees in cooking pouches, and two fried rice products in pouches. CHUN KING packaging was redesigned for greater merchandising impact.

PATIO introduced a line of burrito rolls very successfully in the Southwest. These items — crisp pastry shells stuffed with a variety of fillings — are scheduled for national distribution.

Sales of HAWAIIAN PUNCH continued to rise, with the "Punchy" TV cartoon character used as the focus for a total marketing approach. New flavors for the line are being test-marketed.

MY-T-FINE desserts were reformulated and the packaging redesigned for more aggressive merchandising. MY-T-FINE canned puddings were introduced in selective markets.

VERMONT MAID experienced a significant sales increase. It also became the first national-brand syrup to be marketed in a plastic bottle, with substantial savings in packaging and shipping costs and greater appeal to consumers.

COLLEGE INN had a good year, reflecting its commitment to strong promotions directed to home economics teachers and students.

Throughout the entire Reynolds Foods organization, emphasis will continue to be placed on development of new specialty products.

JOHN PHILLIPS
President, R. J. Reynolds Foods, Inc.

Aluminum and Packaging

Archer Products, Inc. increased its sales in 1969 in all three divisions — Metals, Packaging, and Consumer Products. Each division exceeded the growth rate of its respective industry group. Archer's sales to outside customers continued to accelerate and for the second successive year exceeded those made to the parent company.

Work was begun on an expansion program at the Winston-Salem facilities of the Metals Division. In addition to supplying continuous cast aluminum for its two metals plants in Winston-Salem, the increased casting capacity will enable Archer to furnish a substantial portion of the aluminum required by its Huntingdon, Tennessee, plant.

The past year brought to all three divisions a broader acceptance of their product quality and increased recognition of their technical competence and service. Closer working relationships were developed with major corporations to meet many diverse applications, and more than sixty of the nation's top companies were customers of Archer last year.

The Consumer Products Division, which introduced two new lines of gift wrap, had an outstanding year, far outstripping its industry in the pace of its growth.

SAMUEL A. ANGOTTI
President, Archer Products, Inc.

PAUL J. VAUGHAN
President, Filmco, Inc.

At Filmco, Inc., dollar sales volume was down from 1968 because of extreme price deterioration in packaging films during the first half of the year, although volume was up on a poundage basis.

A shrink film developed by Filmco to capitalize on the growing trend to automated meat packaging in supermarkets made sales gains the last half of 1969, and a high proportion of these sales represented new business rather than replacement for regular meat films. A new gold-tinted film for meat also had fine acceptance.

Corn Refining

In September, 1969, the Company agreed to divest itself of its subsidiary, Penick & Ford, Limited. By consenting to this action, the Company will retain the properties and products of the former grocery division of Penick & Ford, which were transferred to R. J. Reynolds Foods, Inc. in 1967.

As the stockholders were advised in the interim report dated October 27, 1969, under the final judgment the Company is required within two years to divest itself of its interests in the present Penick & Ford company as a going viable concern engaged in the corn wet milling business and the potato starch business. The divestiture may be made by any of several methods, but at this time no decision has been made as to how it will be accomplished.

R. V. CRONIN
President, Penick & Ford, Limited

Penick & Ford's dollar sales for the year, including the Potato Products Division, were 24% greater in comparison with 1968, which was marked by a three-month strike. Prices and profit margins for corn syrups were higher than in 1968 but remained unsatisfactory for starch products. The Potato Products Division showed a good increase in dollar volume and profits compared with 1968.

A promising new product developed at Penick & Ford during 1969 consisted of a group of hydrophobic starches with unique properties for paper and other applications. Production of commercial quantities is expected in early 1970.

Containerized Freight Transportation

The merger of McLean Industries, Inc. into R. J. Reynolds in May was the most significant step yet taken by the Company in its continuing diversification program.

Sea-Land Service, Inc., the operating company of McLean Industries, is a containerized freight service company utilizing the concept of intermodal highway trailers over land and sea.

The company began pioneering containerized freight transportation thirteen years ago on the first regularly scheduled containership run between Newark and Houston. Since then Sea-Land has grown to a fleet of 48 containerships transporting more than 35,000 computer-controlled containers on regular calls to 51 port terminals throughout North America, Europe, the Caribbean, and the Far East.

Four fundamentals account for Sea-Land's efficient and economical container transportation: ocean-going capability, a world-wide network of ports, modern container facilities at dockside, and a system of inland coverage through strategically located terminals.

The key to this whole concept is the Sea-Land container itself, a highway trailer that travels equally well aboard ship, by rail, or by motor carrier. In effect, the container becomes a sea-going vessel, a rail car, or a truck trailer. The benefits of this approach to freight handling are several: vessel turn-around time is greatly reduced; expensive packaging even for overseas shipments becomes unnecessary; and goods move under seal from door to door.

Two important steps have been taken to extend Sea-Land's capabilities. Orders have been placed for the construction of eight high-speed containerships, which will be added to the Sea-Land fleet as they are completed during the period 1971-73. Each vessel will have a speed of 33 knots and a capacity of 1,082 trailers of 35- and 40-foot lengths. In addition, Sea-Land has entered into a

MALCOM P. McLEAN
Chairman, Sea-Land Service, Inc.

MICHAEL R. McEVOY
President, Sea-Land Service, Inc.

20-year agreement with United States Lines, subject to approval by the U. S. Maritime Commission, to charter 16 containerships and to lease related equipment, with an option to buy the vessels and equipment at the end of 20 years. Competitors have objected to the proposed charter, and hearings before the Maritime Commission have not been completed.

The additional capacity to be provided by construction of the new fast ships, and the proposed time-charter arrangements if consummated, will contribute significantly to Sea-Land's capabilities in the rapidly expanding containerized freight transportation industry.

Tobacco
Foods and Beverages
Aluminum and Packaging
Containerized Freight Transportation

RJR

No. 1

among all cigarettes, WINSTON continued to outsell all other brands in the nation in 1969, widening its lead over its nearest rival.

WINSTON King Size was the industry's top-selling 85-millimeter brand, and WINSTON Super King led in the 100-millimeter category.

No. 1

among menthol cigarettes, SALEM was the country's best selling brand in its category for the twelfth consecutive year and ranked fourth among all brands.

SALEM Super King, leading the 100-millimeter menthols, gained in volume over 1968. SALEM King Size headed the 85-millimeter menthol category.

No. 1

among regular-size non-filter cigarettes, CAMEL continued as the dominant brand in this field. Its market share of that business was well over 50 per cent.

CAMEL Filter enjoyed a good growth in sales during the year.

DORAL, combining good flavor with a unique filter system, was placed in national distribution in mid-1969 and outsold every other new cigarette brand introduced in the last two years.

Shortly after its introduction in 1967, WINSTON Super King forged to the top of the 100-millimeter field, and it maintained its lead in 1969.

PRINCE ALBERT maintained its position as the nation's largest selling smoking tobacco, and CARTER HALL again showed a substantial increase in volume.

DAYS WORK retained the top spot in sales of all plug chewing tobacco brands and gained in volume and share of market.

From R. J. Reynolds Foods, Inc.: Beverages and convenience foods for every occasion. Thirst-quenching HAWAIIAN PUNCH **(1)** in tempting flavors—fruit juicy red, orange, grape and pineapple—featuring seven natural fruit juices . . . Bavarian mold and fruit and nut cake made with MY-T-FINE **(2)** Pudding Mixes . . . PATIO **(3)** frozen tortillas, stuffed with a variety of colorful fillings for a festive party table . . . COLLEGE INN **(4)** chicken specialties featuring choice ingredients —plump chicken and rich egg noodles . . . BRER RABBIT **(5)** light molasses, the success secret of southern pecan pie . . . For a colorful Luau feast, a variety of CHUN KING **(6)** products—Hawaiian barbecue sauce, frozen sweet and sour pork, shrimp chow mein, fried rice and tiny frozen egg rolls . . . And for any cold winter morning a hearty breakfast of hot pancakes topped with golden VERMONT MAID **(7)** Syrup.

Aluminum sheet and foil are manufactured by Archer Products, Inc. in various gauges and alloys for many industrial and packaging uses. From the rolling mills of Archer's Metals Division come products for the electrical, building, packaging, air conditioning and heating industries.

Products found in every grocery store, with brand names known to every housewife, are protected by Archer packaging.

Archer's Packaging Division provides services to many top companies in the form of foil and paper combinations, polyethylene laminations and coatings, and foil and specialty paperboard cartons. Archer's Consumer Products Division makes gift wrap, household and florist foils, ribbons and bows.

Protective vinyl wraps made by Filmco, Inc. are supplied to grocers for displaying fruits and vegetables as well as meats. Filmco also makes vinyl wraps for industrial packaging.

Containerized Freight Transportation

Through port facilities like those shown at the left, the Sea-Land fleet of 48 ocean-going trailerships moves containerized cargo throughout the world. Complementing this ocean fleet is a land fleet now numbering more than 35,000 trailers. Shown above are a Sea-Land bulk liquid container in Glasgow, Scotland bound for the United States and a Sea-Land dry van in the streets of Kobe, Japan. This world-wide freight transportation service is the principal business of McLean Industries, Inc., the newest member of the R. J. Reynolds family.

RJR

Plant Locations

Licensees

Sea-Land Ports Served

International Operations

The Company maintained its leadership in 1969 as the largest exporter of cigarettes from the United States and increased its share of this business. Total cigarette exports, however, were down. While there was a gain in commercial exports, this was more than offset by a decline in overseas military shipments, resulting from Armed Forces cutbacks in Southeast Asia.

In Europe, sales of the Company's cigarettes, including those exported from the United States and those produced in Europe, rose substantially. CAMEL Filters scored a notable success, particularly in Germany. To supply the increasing demand, plans were completed to build a cigarette factory in Trier, West Germany, and a factory near Lucerne, Switzerland. Both are scheduled to be in operation by mid-1971.

A licensing agreement was announced in May with Sylvana Tobacco Corporation in the Philippines for the manufacture of WINSTON, SALEM, and CAMEL Cigarettes.

In Mexico the Company's affiliate established WINSTON on a national basis and introduced CAMEL Filters in test markets.

Construction is under way on a plant in Puerto Rico to manufacture WINSTON, SALEM, and CAMEL for sale there and in the Virgin Islands. Initial production is set for the fall of 1970.

R. J. REYNOLDS INTERNATIONAL
Winston-Salem, North Carolina
H. E. RICHMILLER, *President*

R. J. REYNOLDS COMPANY
San Juan, Puerto Rico
JACK AFRICK, *President*

FABRICA de CIGARROS BALOYAN, S.A.
Tijuana, Mexico
B. T. TROY, *General Manager*

TABACALERA NACIONAL, S.A. (Licensee)
Lima, Peru

SYLVANA TOBACCO CORPORATION (Licensee)
Manila, Philippines

R. J. REYNOLDS (Europe) S.A.
Geneva, Switzerland
JACQUES E. BORIN, *President*

REYNOLDS-NEUERBURG G.m.b.H.
Cologne, West Germany
DR. HANS BÜHLER, *General Manager*

REYNOLDS CIGARETTE CORPORATION
Aarau, Switzerland
MAURICE PERRET, *Manager*

THEODORUS NIEMEYER, N.V. (Licensee)
Groningen, Holland

AUSTRIA TABAKWERKE, A.G. (Licensee)
Vienna, Austria

GLENN TOBACCO COMPANY
Athens, Greece
EDWIN M. LEIGHT, *Manager*

Ten Year Financial Summary (1)

(Dollar amounts in thousands except share statistics)

Year ended December 31	1969	1968	1967
REVENUES, EARNINGS AND DIVIDENDS			
Net sales and operating revenues:			
Tobacco	$1,709,914	$1,732,577	$1,695,181
Transportation	280,334	226,383	180,496
Other	262,447	229,911	216,233
Total	2,252,695	2,188,871	2,091,910
Earnings from operations:			
Tobacco	319,746	320,850	300,533
Transportation	55,853	50,523	33,315
Other	12,551	13,345	14,668
Total	388,150	384,718	348,516
Interest and debt expense	23,092	14,327	16,104
Provision for income taxes	191,283	195,767	161,485
Extraordinary items, net of income taxes	—	—	—
Net earnings (2)	172,305	168,930	166,344
Dividends paid on Preferred Stocks (historical)	11,538	1,353	1,423
Dividends paid on Common Stock (historical)	90,530	88,518	82,284
FINANCIAL POSITION			
Working capital	622,881	683,756	623,385
Inventories	723,968	757,135	801,134
Total current assets	921,488	957,484	983,680
Net property, plant and equipment	524,876	381,413	350,964
Total assets	1,693,373	1,476,562	1,475,843
Short-term debt	116,622	107,500	175,500
Current maturities of long-term debt	23,395	23,670	19,388
Income taxes accrued	34,881	47,063	46,455
Total current liabilities	298,607	273,728	360,295
Long-term debt less current maturities	274,031	112,502	121,239
Book value of Preferred Stock	85,774	105,657	104,958
Book value of Common Stock	992,950	918,594	839,802
OTHER INFORMATION			
Capital expenditures	197,903	67,079	71,516
Depreciation and amortization	45,369	41,312	37,619
Net earnings per common share	3.82	3.71	3.65
Net earnings per common share—assuming full dilution	3.57	3.48	3.45
Dividends per common share (on R. J. Reynolds Tobacco Company shares)	2.25	2.20	2.05
Book value per common share	24.68	22.83	20.87
Average number of shares outstanding	40,235,578	40,235,552	40,302,863
Average number of shares outstanding—assuming full conversion	48,123,711	48,184,929	47,784,586
Number of RJR shareholders at year-end	136,539	136,129	134,038

NOTES:

(1) Amounts for all years include the accounts of McLean Industries, Inc. except as noted.

(2) After deducting net earnings applicable to purchased portion of McLean Industries, Inc. Common Stock prior to acquisition.

1966	1965	1964	1963	1962	1961	1960
$1,635,238	$1,601,014	$1,571,762	$1,632,892	$1,597,091	$1,527,181	$1,414,954
147,464	101,782	94,158	75,699	64,425	44,678	34,780
168,961	92,134	42,040	39,553	30,451	28,345	23,593
1,951,663	1,794,930	1,707,960	1,748,144	1,691,967	1,600,204	1,473,327
268,017	261,873	247,490	275,194	262,161	264,359	227,198
24,312	12,448	9,316	3,477	5,497	4,515	1,058
17,919	8,765	8,657	9,538	7,673	8,222	5,370
310,248	283,086	265,463	288,209	275,331	277,096	233,626
11,823	7,108	7,508	10,458	10,248	8,035	9,588
145,623	136,812	129,404	148,840	140,672	147,194	118,285
—	6,701	1,556	245	908	—	—
149,939	143,101	128,893	129,344	124,434	121,119	105,901
1,485	1,600	1,761	1,738	1,376	1,044	1,135
79,825	75,006	73,734	67,602	64,512	56,439	48,345
583,842	626,865	668,419	613,893	558,685	537,875	498,576
795,162	787,407	777,651	797,703	846,938	845,787	745,598
964,435	927,302	887,640	892,089	943,159	938,622	834,140
315,929	265,912	194,213	221,111	211,514	148,070	127,700
1,395,981	1,254,126	1,100,929	1,136,009	1,181,199	1,113,391	989,313
180,650	125,000	67,000	114,500	222,350	258,556	216,639
16,080	15,622	11,282	15,709	18,812	11,797	9,842
68,375	80,304	83,789	96,640	90,399	93,270	77,814
380,593	300,437	219,221	278,196	384,474	400,747	335,564
115,524	103,945	90,089	115,668	112,463	84,824	92,518
100,416	99,998	85,550	87,727	90,233	93,129	94,769
760,003	719,158	685,859	636,000	575,311	517,277	452,455
86,156	126,626	26,819	40,948	81,139	32,376	27,711
33,844	27,398	29,621	29,340	20,951	15,268	15,267
3.22	3.08	2.77	2.78	2.66	2.58	2.21
3.10	2.96	2.71	2.72	2.58	2.48	2.21
2.00	1.85	1.80	1.65	1.60	1.40	1.20
18.83	17.89	16.78	15.52	14.05	12.63	11.05
40,800,745	40,528,050	40,968,611	40,964,177	40,957,619	40,957,106	40,951,641
47,844,569	47,800,123	47,073,953	46,922,492	47,696,453	48,143,363	46,453,441
131,371	118,281	114,010	103,282	97,383	89,550	81,856

Consolidated Balance Sheets

DECEMBER 31, 1969 AND 1968

	1969	1968 (Note A)
ASSETS		
Current assets:		
Cash	$ 39,952,777	$ 49,772,036
Marketable securities—at cost (approximate market value —$6,314,256 and $11,292,804 respectively)	6,800,000	6,800,000
Accounts receivable (less allowances of $4,378,684 and $3,497,706 respectively)	145,602,406	139,486,835
Leaf tobacco, supplies, manufactured products, etc.—at cost (substantially all on last-in, first-out basis)	723,967,878	757,135,468
Prepaid expenses	5,164,984	4,289,448
Total current assets	921,488,045	957,483,787
Property, plant and equipment—at cost—Notes C and D:		
Land and land improvements	12,489,201	12,383,141
Buildings and leasehold improvements	147,694,157	133,694,131
Machinery and equipment	271,219,781	271,009,910
Vessels, containers and other marine equipment	347,799,180	214,686,444
Construction-in-process	58,304,550	24,401,343
	837,506,869	656,174,969
Less allowances for depreciation and amortization	312,630,747	274,762,460
Net property, plant and equipment	524,876,122	381,412,509
Investments in and advances to unconsolidated foreign subsidiaries—Note B	18,649,135	17,823,112
Cost in excess of net assets of businesses acquired—Note B	184,643,517	86,384,961
Brands, trade-marks and good will	1	1
Deferred charges and other assets	43,716,401	33,458,045
	$1,693,373,221	$1,476,562,415

See Notes to Consolidated Financial Statements.

	1969	1968 (Note A)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 116,621,874	$ 107,500,000
Accounts payable and sundry accrued accounts	123,709,146	95,494,717
Current maturities of long-term debt—Note D	23,395,078	23,669,940
Income taxes accrued	34,880,620	47,063,398
Total current liabilities	298,606,718	273,728,055
Deferred liabilities	12,678,689	8,744,901
Deferred income taxes	29,332,454	22,088,454
Long-term debt (less current maturities)—Note D	274,031,238	112,502,332
Minority interest	—	35,247,598
Stockholders' equity—Notes E and F:		
Preferred Stock		
3.60% Series—Par $100		
Authorized and issued 490,000 shares	—	49,000,000
$2.25 Convertible Preferred Stock—without par value		
Authorized—8,633,929 shares;		
issued—8,114,810 shares in 1969	85,773,542	85,657,451
Common Stock—Par $5		
Authorized—60,000,000 shares;		
issued—40,971,639 shares in 1969	204,858,195	204,857,665
Paid-in capital	8,492,310	—
Earnings retained	809,416,850	739,124,149
	1,108,540,897	1,078,639,265
Less cost of stock in treasury:		
Preferred Stock, 3.60% Series (290,000 shares)	—	24,571,415
Common Stock (735,981 shares)	29,816,775	29,816,775
	29,816,775	54,388,190
Total stockholders' equity	1,078,724,122	1,024,251,075
	$1,693,373,221	$1,476,562,415

See Notes to Consolidated Financial Statements.

Consolidated Statement of Earnings

FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

	1969	1968 (Note A)
Net sales and operating revenues	$2,252,694,525	$2,188,870,601
Costs and expenses:		
Cost of products sold and operating expenses	1,630,746,761	1,594,919,734
Selling, advertising, administrative and general expenses	233,797,885	209,232,690
Earnings from operations	388,149,879	384,718,177
Interest and debt expense	23,092,412	14,327,409
	365,057,467	370,390,768
Less:		
Provision for income taxes—Note J	191,283,000	195,766,643
Earnings applicable to purchased portion of McLean Industries, Inc. Common Stock prior to acquisition	1,469,593	5,694,191
	192,752,593	201,460,834
Net earnings	$ 172,304,874	$ 168,929,934
Net earnings per common share	$3.82	$3.71
Net earnings per common share—assuming full dilution—Note K	3.57	3.48

Consolidated Statement of Earnings Retained

FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

	1969	1968 (Note A)
Earnings retained at beginning of year:		
As previously reported		$ 678,333,067
Less: Restatement to give retroactive effect to pooled portion of McLean Industries, Inc.—Note A		18,000,932
As restated	$ 739,124,149	660,332,135
Add net earnings	172,304,874	168,929,934
	911,429,023	829,262,069
Deduct:		
Cash dividends:		
The Company:		
Preferred Stock—3.60% Series	265,000	720,000
$2.25 Convertible Preferred Stock	11,051,831	—
Common Stock	90,530,052	88,518,214
McLean Preferred Stock	221,313	632,995
Total cash dividends	102,068,196	89,871,209
Excess of stated value of the Company's $2.25 Convertible Preferred Stock over the pooled portion of McLean's common equity	(56,023)	266,711
Earnings retained at end of year	$ 809,416,850	$ 739,124,149

See Notes to Consolidated Financial Statements.

Consolidated Statement of Source and Disposition of Funds

FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

	1969	1968 (Note A)
Source:		
From operations:		
Net earnings	$172,304,874	$168,929,934
Depreciation and amortization	45,368,732	41,312,224
Increase in deferred income taxes and deferred liabilities	11,177,788	12,594,609
Minority interest in earnings of subsidiary	1,469,593	5,694,191
Net increase in long-term debt	161,528,906	—
Decrease in net current assets	60,874,405	—
	$452,724,298	$228,530,958
Disposition:		
Expenditures for expansion and modernization	$197,902,993	$ 67,079,559
Cash purchases of McLean Industries, Inc. common shares	125,019,855	—
Cash dividends	102,068,196	89,871,209
Net decrease in long-term debt	—	8,736,654
Retirement of Preferred Stocks	24,464,655	—
Increase in net current assets	—	60,371,137
Other	3,268,599	2,472,399
	$452,724,298	$228,530,958

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE A — Merger with McLean Industries, Inc.
McLean Industries, Inc. was merged into the Company on May 13, 1969. Prior to the merger, 2,304,000 shares of McLean's 10,632,000 common shares were purchased for $115,200,000 cash. In accordance with the terms of the merger agreement, each McLean shareholder not requesting the right of appraisal received one share of the Company's $2.25 Convertible Preferred Stock for each share of McLean Common Stock held. At December 31, 1969, 8,109,781 shares of McLean Common Stock had been exchanged for $2.25 Convertible Preferred Stock. Holders of 218,219 shares of McLean Common Stock who perfected the right to appraisal have been paid $45.00 per share aggregating $9,819,855.

For accounting purposes, the merger was treated as a pooling of interests as to approximately 76% and a purchase as to 24%, and has been reflected accordingly in the Consolidated Financial Statements.

NOTE B — Principles of Consolidation and Other Matters.
The Consolidated Financial Statements include the accounts of the Company and its domestic and Canadian subsidiaries. Accounts of other foreign subsidiaries were not consolidated, such investments being carried at equity. On consolidation all significant intercompany accounts and transactions have been eliminated.

The Company is not amortizing the cost in excess of the net assets of businesses acquired.

NOTE C — Depreciation and Amortization.
During the year, depreciation and amortization charged against earnings totaled $45,368,732 compared with $41,312,224 in 1968. Depreciation on assets owned by the Company and its subsidiaries, other than assets used in the transportation business, was determined for both book and income tax purposes using the straight-line method for assets acquired prior to 1954 and accelerated methods for assets acquired in 1954 and thereafter. Depreciation on assets used in the transportation business was determined using the straight-line method for book purposes and accelerated methods for income tax purposes; therefore, provision was made for deferred income taxes which may be payable in future years.

NOTE D — Long-Term Debt.
Long-term debt consists of the following:

	December 31, 1969			December 31, 1968		
	Total	Due Within One Year	Due After One Year	Total	Due Within One Year	Due After One Year
2½% Promissory Note, due October 1, 1972	$ 6,000,000	$ 2,000,000	$ 4,000,000	$ 8,000,000	$ 2,000,000	$ 6,000,000
3% Debentures, due October 1, 1973 (reduced by $5,000,000 of such debentures held by the Company on December 31, 1969 and 1968 for future sinking fund requirements)	23,000,000	—	23,000,000	28,000,000	—	28,000,000
7% Subordinated Debentures, due June 1, 1989	15,849,200	—	15,849,200	—	—	—
7⅞% Debentures, due September 1, 1994	100,000,000	—	100,000,000	—	—	—
8⅛% Notes, due September 1, 1974	50,000,000	—	50,000,000	—	—	—
Equipment obligations (6% to 8½%) secured by liens on containers and equipment, having a net book value of approximately $122,000,000, payable in monthly installments through 1977	101,887,000	21,264,878	80,622,122	89,091,170	18,370,400	70,720,770
Other indebtedness	690,116	130,200	559,916	11,081,102	3,299,540	7,781,562
	$297,426,316	$23,395,078	$274,031,238	$136,172,272	$23,669,940	$112,502,332

Payment schedule of debt due after one year:

Due in:			
1971	$28,549,027	1974	58,642,631
1972	28,133,408	1975 and thereafter	132,880,725
1973	25,825,447		$274,031,238

NOTE E — Capital Stock Redemption and Conversion Provisions and Substitute Stock Options.

Each share of the $2.25 Convertible Preferred Stock is convertible into 1.5 shares of the Company's Common Stock on surrender of the Preferred share and payment of $22 in cash. The Company may redeem the Convertible Preferred Stock after May 31, 1979, at $50 per share plus accrued dividends to the redemption date. The aggregate redemption value of shares outstanding at December 31, 1969 was $405,740,500. In the event of involuntary liquidation, holders of $2.25 Convertible Preferred Stock are entitled to $10.57 per share plus accrued dividends. Of the authorized but unissued common shares, 12,496,928 are reserved for conversion of the 8,331,285 shares of $2.25 Convertible Preferred Stock.

Substitute stock options for 228,100 shares of $2.25 Convertible Preferred Stock were issued in accordance with the terms of the merger agreement with McLean Industries, Inc., pursuant to a former plan for McLean officers and employees. These substitute options, expiring at various dates to January 7, 1974, were issued at the following prices per share: 217,800 shares, $37.25; 1,000 shares, $40.00; 7,300 shares, $42.50; 2,000 shares, $4.50. During 1969, substitute options for 6,525 shares were cancelled and substitute options for 5,100 shares were exercised. At December 31, 1969, 216,475 shares of $2.25 Convertible Preferred Stock were reserved for exercise of substitute options outstanding at option prices per share as follows: 208,175 shares, $37.25; 1,000 shares, $40.00; 7,300 shares, $42.50.

NOTE F—Capital Changes. The following changes in the Company's capital accounts have occurred during the two years ended December 31, 1969:

	Shares	Amount
Preferred Stock		
3.60% Series — Par $100		
Balance at beginning of 1968	490,000	$ 49,000,000
Stock in treasury cancelled, May 13, 1969	(290,000)	(24,571,415)
Shares converted into $80 principal amount of debentures or purchased for cash during 1969	(200,000)	(16,008,604)
Amount transferred to paid-in capital	—	(8,419,981)
Balance, December 31, 1969	—	$ —
$2.25 Convertible Preferred Stock — without par value ($10.57 per share stated value)		
Shares issued in connection with the merger of McLean Industries, Inc. into the Company	8,109,781	$ 85,720,385
Sales under substitute stock options during 1969	5,100	53,907
Shares converted into Common Stock of the Company during 1969	(71)	(750)
Balance, December 31, 1969	8,114,810	$ 85,773,542
Common Stock — Par $5		
Balance at beginning of 1968	40,971,533	$204,857,665
Shares issued during 1969 upon conversion of the Company's $2.25 Convertible Preferred Stock	106	530
Balance, December 31, 1969	40,971,639	$204,858,195
Paid-in Capital		
Balance at beginning of 1969		$ —
Excess of par value of 490,000 shares of Reynolds Preferred Stock, 3.60% Series over: the cost of 290,000 treasury shares; the principal amount of 7% Subordinated Debentures issued in exchange for 198,113 shares and the cost of 1,887 shares purchased for cash		8,419,981
Proceeds ($22 per share) from conversion of the $2.25 Convertible Preferred Stock and the stated value ($10.57 per share) of the converted preferred stock less par value ($5.00 per share) of the common shares issued		1,761
Proceeds from exercise of substitute stock options to purchase $2.25 Convertible Preferred Stock less the stated value of the shares issued		70,568
Balance, December 31, 1969		$ 8,492,310

NOTE G — Pension Plans.

The Company and its consolidated subsidiaries have several pension plans covering substantially all employees. The total expense for such plans for the year was $5,844,561 compared with $3,723,214 for 1968, of which the major portion applied to the Employees' Retirement Plan of R. J. Reynolds Tobacco Company, a plan funded under the aggregate cost method. The cost of improvements to this plan during 1969, which were approved by the Company's stockholders on May 13, 1969, increased 1969 pension expense by $2,900,000. This increase was partially offset by a reduction of $1,125,000 as a result of a change in an actuarial assumption.

The Company's policy is to fund pension cost accrued. The total amount of assets so funded exceeded in the aggregate the actuarially computed value of vested benefits according to the most recent actuarial valuation.

Contributions are also made to various union administered plans established under the terms of collective bargaining agreements.

NOTE H — Commitments.
Leases and time charters for vessels and related equipment and facilities are used extensively in connection with the transportation business and generally provide for initial periods of ten years, with renewal periods of up to thirty additional years. In 1969, such lease and time charter expenses amounted to approximately $24,150,000, and in 1970 are expected to be approximately $27,000,000, not including expenses in connection with the United States Lines Agreement referred to below.

During 1969, Sea-Land Service, Inc. entered into an agreement with United States Lines, Inc. to charter 16 containerships and to lease related equipment for a period of twenty years, subject to an option by Sea-Land to purchase the vessels and equipment at the end of the term. The fixed portion of the vessel and equipment lease payments amounts to approximately $30,520,000 per year. In addition, Sea-Land would be required to reimburse United States Lines for its expenses in operating and maintaining the vessels, estimated at $30,800,000 annually if the vessels are operated on a full schedule. Sea-Land would also assume equipment obligations aggregating a maximum of $6,000,000. Application for approval of the agreement has been filed, as required, with the Federal Maritime Commission. Various parties, including the Department of Justice, have intervened in the proceeding. The agreement will not be consummated without Federal Maritime Commission approval, and it is not known when the Commission will rule on the agreement.

The Company has signed agreements for the construction during the next four years of five super containerships in the Federal Republic of Germany for a total of 629,000,000 German Marks and three super containerships in The Netherlands for a total of 340,920,000 Dutch Florins. The Company has made an initial payment of $23,900,000 and at present exchange rates, has a remaining commitment of approximately $240,000,000. Interim financing amounting to 80% of the construction cost has been arranged for in Germany and The Netherlands to cover the construction period. It is anticipated that interim financing will be replaced with long-term loans as the ships are delivered.

At December 31, 1969, the Company also had various other capital spending commitments of approximately $42,000,000.

NOTE I — Legal Matters.
In November, 1969, American Export Isbrandtsen Lines, Inc. filed an antitrust suit in the United States District Court for the Southern District of New York seeking a preliminary as well as a permanent injunction against consummation of the agreement between Sea-Land and United States Lines referred to in Note H above. Such suit also asserted that the merger of McLean into the Company violated the Sherman Act and the Clayton Act and requested that the Company be required to divest itself of McLean and also requested treble damages. The request for preliminary injunction was withdrawn in December, 1969, and, by stipulation, the entire case has been stayed pending the decision by the Federal Maritime Commission on the proposed transaction between Sea-Land and United States Lines. The Company intends to defend the case vigorously.

The Company and its subsidiaries are defendants in other litigation which in the aggregate is not expected to have any material effect on the Company's consolidated financial position.

NOTE J — Provision for Income Taxes.
Provision for income taxes includes current and deferred taxes in the following amounts:

	1969	1968
Current	$184,039,000	$185,447,000
Deferred	7,244,000	10,320,000
	$191,283,000	$195,767,000

The provision for income taxes reflects reductions resulting from investment tax credits, principally from investments in transportation assets, of $9,096,010 in 1969 and $4,651,000 in 1968. Investment tax credits are used to reduce the provision for income taxes in the year the credits are first available. Deferred income taxes result from differences between book and tax accounting for depreciation, vessel charter payments and pension expense.

For book purposes, charter costs are expensed on a straight-line basis over the estimated vessel service life (generally 15 years). For tax purposes, vessel charter payments are deducted in accordance with charter agreements which generally provide for an initial 10-year period and renewals thereafter at reduced rates. The difference between charter costs for book and tax purposes is included as a deferred charge on the balance sheet.

NOTE K — Net Earnings Per Common Share — Assuming Full Dilution.

Net earnings per common share assuming full dilution are based on the assumption that all shares of Reynolds $2.25 Convertible Preferred Stock have been converted into Reynolds Common Stock at December 31 of each year and the proceeds have been used to purchase Common Stock for the treasury at the average daily price of Reynolds Common Stock during the respective years. Under these assumptions there would have been 48,123,711 average common shares outstanding during 1969 and 48,184,929 outstanding during 1968.

NOTE L — Divestiture of Penick and Ford, Ltd.
On September 22, 1969, the Company consented to a Final Judgment requiring divestiture within two years of the corn wet milling and potato starch businesses acquired from Penick & Ford, Ltd., Incorporated. The divestiture may be by public offering or distribution to Reynolds common shareholders of Penick stock, or by sale of the stock or assets and business of Penick to an acceptable purchaser. The financial effects of the divestiture cannot now be determined because the method and terms of divestiture are unknown.

At December 31, 1969, the Company's investment in Penick was approximately $79,300,000, of which approximately $30,800,000 represented cost in excess of net assets of businesses acquired. During 1969 Penick had net sales of approximately $59,800,000, and net earnings of approximately $54,000.

Report of Independent Accountants

ERNST & ERNST

Fourth and Main Streets,
Winston-Salem, N.C.

R. J. Reynolds Tobacco Company,
its Directors and Stockholders

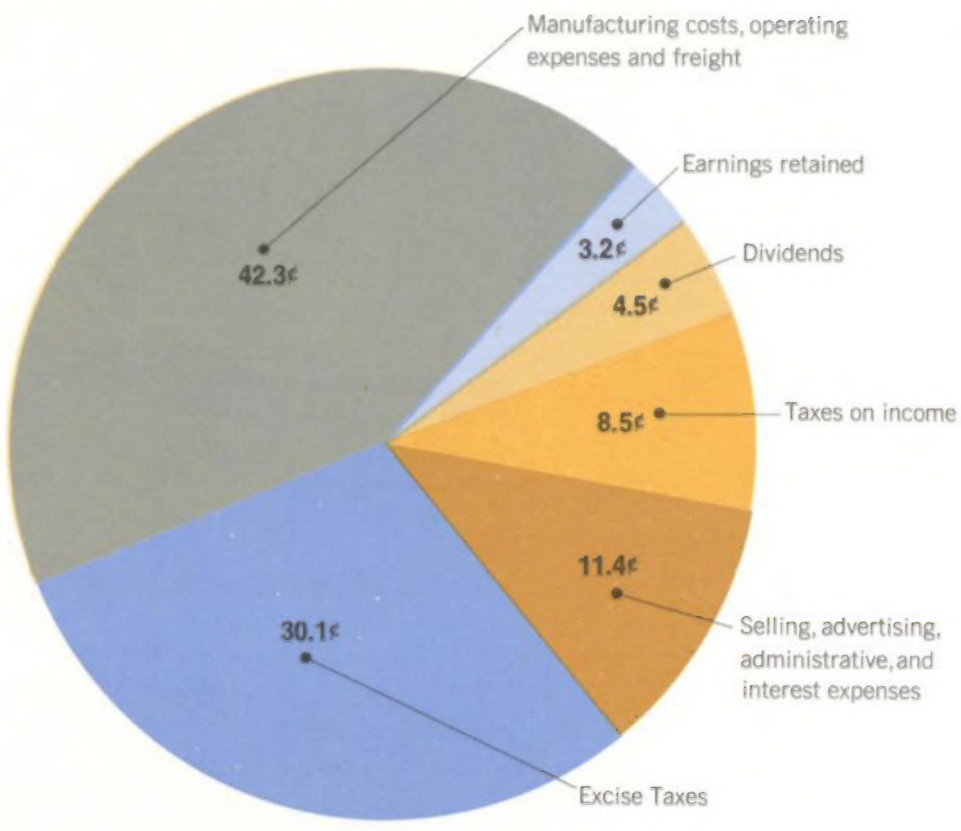
We have examined the consolidated financial statements of R. J. Reynolds Tobacco Company and consolidated subsidiaries for the year ended December 31, 1969. We also examined the consolidated statement of source and disposition of funds. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to adjustments, if any, that may result from the divestiture of Penick & Ford, Limited described in Note L, the accompanying balance sheet and statements of earnings and of earnings retained present fairly the financial position of R. J. Reynolds Tobacco Company and consolidated subsidiaries at December 31, 1969, and the results of their operations and changes in stockholders' equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying consolidated statement of source and disposition of funds presents fairly the information shown therein.

Ernst & Ernst

February 10, 1970

Distribution of the 1969 Revenue Dollar



R. J. Reynolds Tobacco Company

Winston-Salem / North Carolina

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GORDON GRAY
REUBEN P. HUGHES
WILLIAM R. LYBROOK
MALCOM P. McLEAN
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COLIN STOKES
CHAS. B. WADE, JR.

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Vice President and Treasurer

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Comptroller

Registrar

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New York, New York 10022

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1 Chase Manhattan Plaza
New York, New York 10015

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Jersey City, New Jersey 07303

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